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## **CHINA ENVIRONMENTAL TECHNOLOGY AND BIOENERGY HOLDINGS LIMITED**

**中科生物控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 1237)**

### **BUSINESS UPDATE AND CHANGE IN USE OF PROCEEDS**

References are made to the announcements of China Environmental Technology And Bioenergy Holdings Limited (formerly known as Merry Garden Holdings Limited) (the “**Company**”) dated 23 September 2014 and 7 October 2014 in respect of the placing of existing shares and subscription of new shares (the “**Announcements**”). Unless defined otherwise, capitalised terms used herein shall have the same meanings as those defined in the Announcements.

#### **BUSINESS UPDATE**

On 18 September 2018, the Office of the United States Trade Representative announced that effective from 24 September 2018, a 10% tariff will be imposed on China’s 5,745 types of imported goods with total value of US\$200 billion. The Group’s wooden products exported to the United States are among those imported goods being affected. As the volume of the Group’s export business to the United States accounts for a large proportion of the Group’s total business volume, the additional tariffs imposed by the United States government will damage the profit margin of the Group’s products exported to the United States, which will directly impact the performance of the Group in the second half of the year. The Group is currently unable to quantify the impact of such tariff on the Group. Although the situation has been improved after the negotiations between China and the United States during the G20 summit on 1 December 2018, at which the two countries had also agreed to launch trade negotiations and strive to reach an agreement within 90 days. The Group expects uncertainties will remain in the business environment for the rest of the year and 2019. The Group will closely monitor the development on the trade dispute between China and the United States, evaluate its impact to the Group and identify necessary and decisive measures to minimise the negative impact to the Group.

## CHANGE IN USE OF PROCEEDS

As set out in the Announcements, the Group intended to use the net proceeds from the Subscription of approximately HK\$148 million in the manner as follows:

- approximately HK\$73 million (equivalent to approximately 49.3% of the total net proceeds from the Subscription) would be used for capital expenditure to increase production capacity of the Group's products;
- approximately HK\$50 million (equivalent to approximately 33.8% of the total net proceeds from the Subscription) would be used for potential merger and acquisitions should appropriate opportunities arise and where the Directors consider it in the interest of the Group to do so; and
- approximately HK\$25 million (equivalent to approximately 16.9% of the total net proceeds from the Subscription) would be used as general working capital of the Group.

As at the date of this announcement, the Group had used approximately HK\$73 million for capital expenditure to increase production capacity of the Group's products. Besides, the Group had used approximately HK\$27.3 million for merger and acquisition of small to medium sized companies, timber processing plants, and/or other resources and approximately HK\$25 million for general working capital. As such, the unutilised net proceeds from the Subscription amount to approximately HK\$22.7 million which was initially allocated for potential merger and acquisition.

In view of the changes in market environment, especially the recent trade disputes between the United States and China, the Group has planned to shift its focus to securing sufficient working capital and enhancing and increasing our research and development activities to improve our products, instead of mergers and acquisitions, so as to strengthen our competitiveness at times of greatly uncertain economic environment.

As such, the Board has resolved to change the use of the unutilised net proceeds from the Subscription of approximately HK\$22.7 million as follows:

- (a) approximately HK\$10.0 million will be deployed to the repayment of bank borrowings; and
- (b) approximately HK\$12.7 million will be deployed to enhance and increase the Group's research and development activities.

The Directors (including the independent non-executive Directors) consider the above change in the use of the net proceeds from the Subscription is fair and reasonable and is in the interests of the Company and its Shareholders as a whole.

By order of the Board  
**China Environmental Technology  
And Bioenergy Holdings Limited**  
**Xie Qingmei**  
Chairlady

Hong Kong, 7 December 2018

*As at the date of this announcement, the executive Directors are Ms. Xie Qingmei and Mr. Wu Zheyuan, the non-executive Director is Mr. Wu Dongping, and the independent non-executive Directors are Mr. Lam Hin Chi, Prof. Jin Zhongwei and Prof. Su Wenqiang.*